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Cash Transfers, Children and the Crisis: Protecting Current and Future Investments

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Abstract

Developing countries have responded to the multiple shocks from the food, fuel and finance crises of 2008-2009 with a mix of responses aimed at both mitigating the immediate impacts of the crises on households (and particularly children), and protecting future investments in human capital. While some countries have introduced new safety net programs, others have modified and/or expanded existing ones. Since many countries have introduced conditional cash transfers (CCTs) in recent years, these programs have been used as an important starting point for a response. This paper aims to describe how conditional cash transfers have been used by different countries to respond to the crises (e.g. by expanding coverage and/or increasing benefit amounts), distill lessons about their effectiveness as crisis-response programs, identify design features that can facilitate their ability to respond to transient poverty shocks, and assess how they can complement other safety net programs.

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I. Introduction: Cash Transfers and Crisis Response

Developing countries responded to the multiple shocks from the food, fuel and finance crises of 2008 and 2009 with a mix of policy responses aimed at both alleviating the immediate impacts of the crises on households, and particularly children, and protecting future investments in human capital. The possibility of sharp reductions in living standards focused policy makers, program managers and development agencies on finding tools to mitigate the costs of the crisis for the world's poorest households. Many countries – developing and OECD alike – included safety net measures in national stimulus packages as part of the crisis response. This recent experience provides an opportunity to revisit questions such as – are cash transfers an appropriate response to transient shocks? How effective are they at protecting household with children over the short and longer term? And how do cash transfers fit into the context of an overall social protection policy.

Safety net programs have become increasingly widespread in low and middle income countries over the past decade.¹ As a result, many countries benefited from having existing policies in place to respond to the crisis. While some countries introduced new programs, others modified or expanded existing ones, or did both. This paper explores how selected cash transfer programs that support households with children have been used by countries to respond to the crises in order to distill lessons about their effectiveness as crisis-response programs, and to assess how they can complement other types of safety net programs. This review aims to inform the discussion about the potential role that these types of safety net instruments can play in crisis response and inform the readiness of countries to confront subsequent downturns. It draws from recently available information on country programs, including government documents, World Bank project documents, and donor papers.²

The paper focuses on one element of the safety net response to the crisis in developing countries – conditional and unconditional cash transfer programs at the national level that are targeted to households with children. These programs are important policy measures, but are

¹ Fiszbein, Schady, et al. 2009, note that 29 countries had conditional cash transfer programs (CCTs), an increasingly popular form of safety net program, in place in 2008.

² This paper also builds on two recent studies of social safety nets and CCTs worldwide, Grosh, et al., 2009, and Fiszbein, Schady, et al., 2009.

by no means the only, nor necessarily the largest policy instrument, in terms of budget and numbers of beneficiaries, that countries have deployed during the crisis. Public works and unemployment benefits have also been important response mechanisms, as well as a variety of in-kind transfers including, for example, school feeding programs, pensions and disability benefits.³ These instruments can be effective mechanisms for supporting children through intra-household distribution.⁴ In addition, many countries have decentralized safety net programs implemented by sub-national governments which provide support to the poor.

This paper discusses developments in a selection of countries which expanded or reformed cash transfer programs during the crisis period. The review is not intended to be comprehensive. The country examples discussed in this paper were selected because of the illustrative nature of their reforms and the availability of information. The first section of the paper summarizes existing evidence on the role of cash transfer programs, both conditional and unconditional, as crisis response instruments, drawing from past experience. The second section provides an overview of country responses during the 2008-09 crisis. The final section concludes with reflections of early lessons of how cash transfer programs can be most effective in supporting households with children during crises.

³ For example, the Republic of Yemen extended its cash-for-work program to additional 22,000-26,000 households to offset higher food prices. Similarly, Ethiopia expanded its public works program to 1.4 million households in response to the food and fuel crisis (World Bank, 2010). Argentina provides another example, the emergency public works program *Jefes y Jefas* reached 2 million beneficiaries in 2003 after that country's financial crisis. For more on school feeding programs see Bundy, et al., 2009.

⁴ For example, a study of old-age pensions in South Africa found that girls whose grandmothers received pensions have improvements in height and weight (Duflo, 2003).

II. Cash Transfers and Crises

Safety net programs encompass a wide range of cash and in-kind transfer programs and services.⁵ This paper focuses on national-level cash transfer programs that are targeted at households with children. This subset of programs includes both conditional cash transfer programs (CCTs), which provide money to poor families contingent on them making investments in human capital, such as keeping children in school or taking them to health check-ups; and unconditional cash transfer programs (UCTs), which provide direct payments without conditions. Both CCTs and UCTs can be targeted to poor and vulnerable households based on criteria such as income, geographic location and other household characteristics.

As crisis response measures, cash transfers have notable advantages. Cash transfers can be an important vehicle for injecting purchasing power into the economy and transferring resources rapidly to poor households. They can also be important instruments for mitigating transient poverty arising from shocks. On the other hand, drawbacks exist. If administrative capacity is low, it may not be possible or straight-forward to scale-up programs rapidly. Personnel and infrastructure, including offices, information and payment systems may simply not exist nor be possible to easily install to cope with a rapid increase in the number of beneficiaries. In this regard, program design – in addition to administrative capacity – may also affect how quickly programs can be adapted. For example, programs with relatively simple targeting mechanisms will be easier to scale up than others. A program that is self-targeted, may be less personnel-intensive, and easier to scale up than a benefit which relies on a targeting methodology requiring home visits by program staff to assess eligibility.

Conditional cash transfers pose additional considerations in a crisis context. While they have the same benefit of providing poor households with income to mitigate shocks – because CCTs support investments in human capital, they are primarily instruments to address long-term, structural poverty rather than sudden income shocks, particularly if those shocks are expected to be short-term ones. A number of the properties of CCT programs are inconsistent with the type of flexibility required to manage risk during a crisis. First, CCTs are not

⁵ For a recent compendium of safety nets world-wide, refer to Grosh, et al., 2009.

designed as crisis response measures. The administrative targeting methods they use are such that it is hard to add new beneficiaries in the short term and hard to remove them from the program rosters when a crisis has passed. Second, households that already are receiving transfers from a CCT program may not be those who are worst hit by an aggregate economic shock. Third, CCTs ask that households make “lumpy” investments in child education and health—investments that only make sense with a longer-term horizon. And finally, it is not clear that households always will disinvest in child human capital during systemic shocks. A study of the impact of food price rises in Bangladesh during the 2008 crisis found that mothers protected the nutritional status of their children, even when total household food intake was cut.

In addition to these concerns about the appropriateness of CCTs as crisis response measures, there are also debates about the effectiveness of conditions. For example, a recent study of the impact of a CCT in Malawi on girls enrolment in Malawi found no impact of the condition itself – although it should be noted that the target population for this evaluation was older girls and the transfer amount was large – so the income effect may have overpowered the effect of the conditions (Baird, et al, 2010). Similarly, analysis of a

For these reasons, CCTs may not be ideal instruments for dealing with transient poverty. Transfer programs that do not involve long-term commitments (such as those implicit in CCT conditions), that are self-targeted (and thus do not involve complex administrative decisions for program entry or exit), and that involve the participation of beneficiaries in activities that can help address the source of the shock (for example, job-related activities) appear to be better suited to crisis contexts, in some respects, than CCTs. Workfare programs may be preferable in some crisis contexts, although these programs have drawbacks as well, including limited coverage of vulnerable groups which are unable to work. Workfare programs also require administrative capacity to target beneficiaries, and to identify, allocate and monitor the public works projects.⁶ Nevertheless, as the experience of the 2008-09 crisis

⁶ There is also plenty of empirical evidence on how workfare programs operate (for example, see Drèze and Sen 1991; Ravallion, Datt, and Chaudhuri 1993; Datt and Ravallion 1994; Ravallion and Datt 1995; Jalan and Ravallion 2003b).

illustrates, having a cash transfer program in place – conditional or unconditional – clearly is better when there is a crisis than not having any large-scale social assistance program at all.

The Effects of Crises. A starting point for assessing the choice of safety net instrument for a particular context is to consider the types of effects that economic shocks can have on human capital. While it is too early for a full assessment of the effects of the 2008-09 downturn on human development outcomes, it is illustrative to consider the past experience of shocks. Evidence suggests that in practice, shocks are likely to have very different effects on different dimensions of human capital, and the impact will depend critically on whether shocks are idiosyncratic or systemic (Ferreira and Schady 2008). In many developing countries, child health and nutritional status deteriorate during crises.⁷ On the other hand, the evidence on the effects on school attendance are mixed. For example, Jensen (2000) finds that negative weather shocks have large negative effects on school enrollment in Côte D'Ivoire; and Thomas et al. (2004) find that the Indonesian financial crisis of 1998 had a negative effect on school enrollment, although the magnitude of the effect is very small. On the other hand, schooling may increase during downturns if the decrease in the opportunity cost of going to school is large enough to offset the negative income effect for credit-constrained households.⁸

The social impact of the crisis has the potential to persist after the crisis itself. The experience of prior downturns illustrates that poverty can endure beyond macroeconomic recovery and responds with a lag. For example, the national poverty level in Mexico only returned to the pre-crisis level approximately ten years after the 1994-95 peso crisis. Similarly, losses in non-income dimensions of welfare, including labor markets, educational attainment, and health status may have lasting effects.

Diverse effects of crises may be due to heterogeneous responses by households. Households may apply alternative strategies to cope with the effects of shocks, potentially including increasing their working hours, drawing down savings and others assets, or turning to informal social networks. If these mechanisms are insufficient, households may turn to

⁷ See, for example, Cutler et al. 2002; Paxson and Schady 2005; Baird, Friedman, and Schady 2007.

⁸ This appears to have been the case in Nicaragua; it was also observed in Peru during the deep recession of the late 1980s (Schady 2004), in Mexico in the 1990s (Mckenzie 2003), and in the United States during the Great Depression of the 1930s (Goldin 1999).

purchasing cheaper but less nutritious food, sell productive assets such as land and livestock, withdraw children from school or delay their enrollments and encourage them to enter the labor market, and defer the use of essential health services. While these risk-management mechanisms may aid households over the short term, they also may imply long term losses in productivity and child welfare, in particular among the poorest households, increasing the likelihood of intergenerational transmission of poverty – and underscoring the importance of investments in child health; nutrition and schooling for long term development.

Even when chronically poor households are not the hardest hit by shocks, their economic conditions can be expected to worsen from already low levels, causing severe consequences for their well-being. They are likely to become poorer as a result of the crisis and may be most at risk of suffering irreversible losses because they have fewer strategies to mitigate the crisis such as seeking credit, increasing work, or private transfers. In the absence of an effective social protection system, they can be compelled to use inefficient private responses such as reducing investments in human and physical capital that affects their long-term earning potential. The potential impacts of a crisis on children are of particular concern. In response to economic crises, households generally reduce their consumption levels, and change consumption patterns, and in some cases this can lead to an increase in child malnutrition. All of these adjustments are difficult to reverse in the short-term, causing negative impacts on welfare to persist even after the economy recovers and generating long-term losses in poverty reduction and human development.

In this context, cash transfers may help cushion the impact of systemic and idiosyncratic shocks, including possible effects that these may have on the accumulation of human capital by children. The findings from prior crises suggest that there is an important role for cash transfers to provide income support to both households affected by transient shocks, and the chronically poor, and to maintain household investments in human capital. Although the caveats noted earlier suggest that cash transfers – both conditional and unconditional – should be elements of a comprehensive social protection strategy, and can complement other measures such as workfare and unemployment benefits.

Box 2: Do CCTs Help Protect Human Capital Investments during Economic Shocks?

Evidence from Nicaragua, Mexico and Indonesia illustrate that despite constraints, CCTs can contribute to mitigating shocks and complement other safety net responses. Maluccio (2005) considers patterns of occupational choice, employment, consumption, school enrollment, and child nutritional status in the 2000–02 period in Nicaragua. The data cover communities randomly assigned to the CCT program, the Red de Protección Social (RPS), treatment and control groups, and households in coffee-growing and non-coffee-growing areas, which are found in both the RPS treatment and control communities. The 2000–02 period saw a sharp downturn in the price of coffee. Maluccio shows that in those communities that did not receive RPS transfers over the period, household per capita expenditures fell by 18 percent. Nevertheless, school enrollment of children aged 7–12 increased—particularly in coffee-growing areas. Among boys, for example, school enrollment increased by 15 percentage points, which suggests that the opportunity cost of going to school fell sharply. Turning next to a comparison of changes in enrollment in RPS treatment and control communities, Maluccio shows that increases in school enrollment were larger in RPS communities than in the control communities, and even larger in RPS communities that also were in coffee-growing areas. But it would not be accurate to conclude that the RPS “protected” school enrollment during a downturn because school enrollment increased during the period in control communities, especially in coffee growing areas. Maluccio next analyzes changes in nutritional status over the period. He shows that height for age deteriorated in control communities between 2000 and 2002, but did not do so in RPS communities. However, the positive impact of the RPS on child nutritional status was larger in non-coffee-growing areas than in areas where coffee is grown—a finding that suggests, if anything, that the RPS was better able to improve child nutritional status in areas in which household incomes were stable than in areas affected by the economic downturn.

In Mexico, de Janvry et al. (2006) combine the randomized assignment of the flagship conditional cash transfer program, *Oportunidades*, with data on systemic shocks (drought, natural disaster) and idiosyncratic shocks (unemployment or illness of the household head, illness of preschool-age children) to compare household responses to shocks in treatment and control villages. They show that shocks generally reduced school enrollment in the sample,

but that those effects were offset partially or fully by *Oportunidades* (in particular, with systemic shocks such as droughts and other natural disasters). During the Indonesian crisis of 1997–98, the government made children in poor households eligible for a “scholarship” program. Although, given the crisis context, little attention was paid to evaluation of the effect of the program, using regression and matching techniques, Cameron (2002) concludes that the program reduced dropout levels in lower-secondary school by about 3 percentage points. Sparrow (2007) runs ordinary least squares regressions that suggest a larger effect on enrollment for children aged 10–12 (about 7.6 percentage points).

Source: Fiszbein and Schady, 2009.

III. Safety Net Responses

While it is too early to assess the outcomes of policy responses to the crisis, an overview of selected examples across regions suggests that countries that had existing cash transfer programs in place, or that had plans for reforms or new programs in the works, were able to respond more quickly than others. Across regions, countries expanded coverage of existing programs, increased benefit levels, or introduced new programs. Table 1 summarizes some of the programs that were used in response to the crisis by type of responses. In some cases, such as the Philippines and Pakistan, countries had pilot cash transfer programs underway and were able to move rapidly to implement new programs. This section looks across the experience of a selection of countries which made use of cash transfer programs during the 2008-09 crisis.

At the outset it is important to note that the recent crises had varying effects across countries, depending on their level of exposure to the external shocks, their fiscal position, and ability to respond with safety net measures and other countercyclical programs. The extent of the downturn in countries with cash transfer responses ranged from declines of 14.9 percentage points in GDP in Latvia between 2007 and 2008, 3.2 percentage points in the Philippines and 1.9 points in Mexico.

While many countries have begun to recover from the shocks of the crises, the longer-term impact of increased unemployment and poverty are likely to persist. Recent World Bank estimates suggest that while poverty rates have been falling, by 2015, the global poverty rate is projected to be 15 percent, in contrast with a projected 14.1 percent if the crisis had not occurred (World Bank, 2010). The existence of social programs – including cash transfers – has been an important factor in mitigating the effects of the crisis.

Table 1: Summary of Selected Cash Transfer Program and Responses, 2008-09

Expanded Coverage	Increased Benefit Amounts	Introduced New Programs
Philippines (4P)	Mexico (Oportunidades)	Indonesia* (BLT)
Kenya (OVC-CT)	Latvia (Guaranteed Minimum Income)	Pakistan (BISP)
Malawi (Mchinji)	Kyrgyz Republic (Unified Monthly Benefit)	Senegal (Social Cash Transfer and Nutritional Security)
Brazil (Bolsa Familia)	Brazil (Bolsa Familia)	El Salvador (Comunidades Solidarias Rurales)
Mexico (Oportunidades)		Guatemala (MIFAPRO)
Latvia (Guaranteed Minimum Income)		
Kyrgyz Republic (Unified Monthly Benefit)		
* The Bantuan Langsung Tunai (BLT) Program existed in 2005 and was discontinued. The same program was revived again in 2008.		

Expanding coverage. The most common approach for countries with existing programs has been to expand their coverage. In some cases, such as Brazil's *Bolsa Familia* program and Mexico's *Oportunidades* program, this involved adding beneficiaries to CCT programs which already had substantial coverage. In other cases, such as Philippines and Pakistan, this has involved scaling up of pilot programs. In Kenya and Malawi plans were underway to scale-up pilot transfer programs before the crisis, but were accelerated. Scaling-up has been achieved in different ways. Some countries increased eligibility by adding new groups to the program. For example, the Malawian government expanded its *Mchinji* cash transfer program geographically from covering one district to seven.

In other cases, countries revised formulas that target beneficiaries. This happened in Latvia which raised the eligibility threshold for its Guaranteed Minimum Income (GMI) Program. Another approach was to change the targeting methodology completely. For example, the Philippines, which shifted from geographic targeting to proxy-means testing of the *Pantawid Pamilyang Pilipino Program* (4P), and Pakistan, which moved from targeting the Benazir Income Support Program (BISP) by parliamentarians, to proxy means-testing. Brazil's strategy involved a combined approach of raising the benefit eligibility threshold, as well as revising the targeting formula to account for variations in household income.

Countries have accompanied changes to targeting methodologies with efforts to strengthen the administrative infrastructure of programs. For example, by investing in improvements in program management as well as strengthening information and payment systems. In the Philippines, the scaling up of the 4P program has involved a major investment in creating a unified registry of beneficiaries. These efforts have the benefit of increasing the capacity of programs to respond during the crisis, as well as contributing to longer-term improvements in program efficiency and effectiveness.

Expansion of programs has continued in the aftermath of the 2008-09 crisis, Guatemala is expanding its newly introduced MIAFPRO program from covering 89 to 145 municipalities, Mexico is introducing a new benefit for families with children below school age, and El Salvador is introducing a new transfer program in rural areas, *Comunidades Solidarias Rurales*, based upon a former CCT program.

Increasing benefits. Another frequent reform to cash transfers during the crisis has been to increase transfer amounts to enable households to tackle the crisis. This has been an important development, as in many cases even where households were eligible for transfers, the payments were sometimes too low to provide poverty relief. For example, prior to recent changes, the average benefit of the Guaranteed Minimum Income Program in Latvia was 6.2 percent of household consumption of the bottom quintile in 2007.⁹ In response to the crisis, Latvia increased the transfer amount for individual beneficiaries based on their household income from US\$ 56 in January 2009 to US\$ 80 in October 2009. Similarly, Kyrgyz Republic increased the transfer amount of the Unified Monthly Benefit Program by US \$1 per month in October 2008. Mexico also increased the transfer amount of *Oportunidades*, first by US\$ 4 in 2008 and again in 2009 by US\$ 9.

In some cases, such as Latvia, these increases were considered permanent adjustments, while in the case of the Kyrgyz Republic, the program was planned as a temporary increase for 10 months. Similarly, in 2009, the Chilean Government paid two one-time benefits -- one in April and the other one in August of 40,000 pesos per dependent. Those eligible included participants in the CCT program *Chile Solidario*, any family receiving the Single Family Allowance (social assistance) and those formal workers receiving the contributory family allowance but with wages below a certain ceiling. The aim was to cover the bottom 40 percent of families or 1.7 million, with the expectation that it would cover 3.5 million individuals.

Other Latin American countries, including Mexico, increased the level of payments to CCT beneficiaries. These additional payments were presented as supplemental payments made on an exceptional basis in order to give policy makers room to scale back payments to their pre-crisis levels in the future (Walker, Ribe, and Lammana, 2010). Benefit increases are another example of crisis responses potentially leading to longer-term improvements in the programs' abilities to alleviate poverty. However, the increased budget commitments can also undermine the fiscal sustainability of the program and raise expectations for beneficiaries that the increases will be permanent.

⁹ Latvia Development Policy Loan, World Bank Internal document

New programs. The crisis has also encouraged the introduction of new cash transfer programs. In some cases, such as the BISP in Pakistan this involved scaling up of a pilot program. The BISP was introduced in the second half of 2008 on a pilot basis. The Government is in the process of expanding the program to cover 1.6 million families. Senegal also introduced a one-off cash transfer with the goal of reducing food insecurity in children below 5 years of age. The program paid out US \$14 per month for 6 months during the crisis in 2009. Indonesia reinstated its *Bantuan Langsung Tunai* (BLT) program during the crisis. It existed in 2005 and was again started in 2008 as a one-off cash transfer program to offset energy price increases. The transfer was made to approximately 18.5 million households, covering 30 percent of households in the country. Finally, the MIFAPRO program in Guatemala was also introduced in 2008 as social protection program covering 89 municipalities in the country.

IV. Reflections and Early Lessons

Although it is premature to assess the impact of the recent wave of reforms on welfare outcomes, it is evident that many countries made substantial use of cash transfer programs – especially existing programs during the 2008-09 crisis – and that countries that had programs in place were better positioned to respond during the crisis than those countries that did not have existing programs. The scale of responses to the recent shocks varied. While some countries have put in place massive new programs, or made unprecedented increases to existing programs, others have made more marginal adjustments, either to improve program coverage, by adding previously excluded beneficiaries, or increasing the adequacy of benefits by increasing benefit amounts. Regardless of the scale, many of these reforms to cash transfer programs have the potential to strengthen safety nets over the longer-term and leave countries better prepared for the next crisis. This underscores the importance of investing in programs now that can be scaled up in the future. However, the policy changes also raise potential risks, including for fiscal sustainability that need to be considered.

Seizing crisis as an opportunity. Countries have taken advantage of windows of opportunity presented by the crisis to expand much needed cash assistance to the poor. The crisis accelerated scaling up of pilot programs, as well as pending or planned reforms of established programs. The fact that fewer countries introduced new cash transfers, or other typical crisis response programs, such as public works, suggests that it is easier and faster to top-up or expand existing programs, rather than creating a new program.

A striking example of a country which scaled up a pilot program in a massive way is the Philippine Government's rapid scale up of the 4P CCT program. In response to the strains from increasing domestic food prices, growing unemployment and declining remittances during the crisis, the Government included scaling up of the 4P program as part of its stimulus package. The program increased coverage to 376,000 households in 2008 and expanded further at the beginning of 2009 to cover 1 million household beneficiaries, or approximately 20 percent of the poor. The introduction of the 4P program was a part of a set of reforms to social protection which had begun in 2007. However, the food and fuel crisis of 2008 accelerated the government's reform agenda. In addition to the 4P, the Government also introduced other temporary cash transfer programs including the *Tulong Para Kay Lolo and Lola* cash transfer for citizens over 70 who lack a regular income, and the *Pantawid Kuryente*, a one-time cash transfer for low income energy consumers, that was introduced at the onset of the crisis.

The Philippine Government made important changes to the 4P program to expand its coverage rapidly, including shifting from geographic targeting to a proxy-means test. The Government established a new targeting system, including a standardized database of poor households, which strengthened the process of beneficiary identification and improved program efficiency. The Government also expanded the budget for monitoring and evaluation of the 4P. In addition to direct program monitoring, there are plans to collect more rigorous household level data to assess the impact of the program on households.

Countries with well-established programs also used the crisis as an opportunity to undertake reforms. In the wake of the 2008 crisis, Brazil implemented planned adjustments to the

targeting and coverage of its flagship *Bolsa Familia* CCT program.¹⁰ These changes were made based on the results of a 2008 study which found high income volatility among families which fit the income profile for the BFP. Following this, the Brazilian government decided to review the estimates of the target population based on census data, household data and an index of income volatility. Based on the analysis, the Government decided to increase the size of the target population for the program. This adjustment brought in 1.3 million additional families into the BFP by October 2009. Brazil also adopted a new method to estimate poverty at the municipal level using poverty maps. This methodology allows the program to determine more accurately the number of families that would be eligible for the program across municipalities. This has led to increased participation particularly from urban residents.

BFP plans further expansion to reach all poor families in all municipalities of Brazil. This will be facilitated through improvements to implementation, including streamlining program management, payment systems, especially in rural areas, and increasing the capacities of local municipalities to verify compliance with program requirements. The other planned area for improvement is the ability to link beneficiaries of BFP to other interventions such as income generating opportunities operated by federal or municipal governments.¹¹

Similarly, Mexico made changes to its flagship CCT program, *Oportunidades*. The Social Development Secretariat (SEDESOL), which oversees the program, adjusted benefits based on price inflation. In 2008, an additional transfer of approximately US \$4 on top of inflationary adjustments was introduced to respond to rising energy prices. An additional US\$ 10 was provided to each household in the program in 2009 due to the rising food prices. The operating rules of the program were also modified by fixing the minimum number of households in the program rather than setting a ceiling on the number of households

¹⁰ The *Bolsa Familia Program* (BFP) Brazil's flagship poverty alleviation program. It is a conditional cash transfer program that was created in October 2003 through the consolidation of four existing cash transfer programs. The benefit is conditioned on compliance with health and education requirements. It is available in all 5,563 municipalities in the country and benefits around 45 million poor people (approximately 25% of the population). For more information see *Bolsa Familia Program: Targeting Strategies*, Ministry of Social Development and Fight against Hunger, Federative Republic of Brazil; Presentation at World Bank, June 2009.

¹¹ Project Information Document-Appraisal Stage, Second *Bolsa Familia* project; The World Bank

participating. In 2010, a new benefit was added to families with children below school age. Families were given an extra US \$7 per child in the household with a limit of 3 children.

The government plans to expand the program in 2010 to 5.8 million families from its current level of 5.2 million families. This expansion will take place primarily in urban areas where the under-coverage is greater. The government is also expanding another program that covers areas lacking enough service capacity to handle all families eligible for *Oportunidades*. This is a cash transfer program as well with fewer conditions and no educational conditions. This program is expected to expand to 600,000 families from its current level of 200,000 families.

Adjusting program design and managing risks. While crisis brings opportunity, the rapid momentum of reforms during a crisis also raises risks that changes made to programs during the pressures of a crisis context can weaken a well-designed instrument for poverty reduction. Such risks include reducing benefit levels because of fiscal cuts, expanding coverage beyond the structurally poor, or undermining the sustainability of programs – if benefit increases made during the crisis are difficult to scale back. Some countries introduced targeted benefit increases without signaling whether these changes were temporary or permanent. This raises the risk that it will be politically contentious to repeal changes, by cutting off beneficiaries, or reducing payment amounts, once the immediate impact of the crisis has passed.

In addition, rapid scaling up of cash transfers raises risks of increased error, fraud and corruption in the delivery of cash transfer programs.¹² Even if adequate arrangements for monitoring and control of the delivery of the program are fully specified, and even running effectively in pilot regions, it may be difficult to replicate and implement these systems in a wider geographic area. Cash transfers pose special risks from the perspective of error, fraud and corruption because of the large number of financial transactions they require and the involvement of multiple actors in delivery – from household beneficiaries to program managers – frequently at municipal, regional, and national levels (Stolk and Tesliuc, 2010).

In order to mitigate these risks, the Philippines 4P program took preventive measures, with support from the Government of Australia (AUSAID), to identify and reduce governance

¹² World Bank, 2007 reviews risk mitigation measures put in place in CCT programs in Latin America.

risks as part of the plans for scaling up the program. These included activities that supported the integration of risk-mitigating measures within core program design such as a transparent proxy means test based targeting system, management information system, monitoring and spot checks, and process risk mapping; demand-side measures which supported activities to enhance the capacity of beneficiaries and the general public to oversee the program implementation through public information and grievance redress system; and supply-side measures which supported the strengthening of the implementing agency's governance and anti-corruption capacity through a focused Integrity Development Review (Arulpragasam, et al., forthcoming).

Protecting human capital investments with conditionality. The crisis has also raised the question of whether conditional or unconditional cash transfers are preferable. If the focus is on protecting the structurally poor, conditions play the same role in stimulating demand for investments in human capital as they do during non-crisis times. On the other hand, if the focus is on protecting the transient poor from shocks, conditions may have a limited effect, or may create logistical barriers to rapid assistance. From the perspective of protecting children, the urgent priority during a crisis is ensuring the usage and quality of education and health services. Where countries are able to maintain pro-cyclical expenditures in social services, investing in a CCT program might lead countries to protect or prioritize social spending, however there is no guarantee that this will always be the case, given severe fiscal pressures. As an example, scaling up of the 4P CCT program in the Philippines, led to increased efforts to invest in the supply of services. This has led to a more coordinated response, as the Government has had to develop a rapid plan for expansion of services to underserved areas.

In Kenya, the Government accelerated the scaling up of a new cash transfer program during the crisis – the Orphan and Vulnerable Children cash transfer program (OVC-CT). However, although the program is intended to be a CCT, because of constraints on the supply-side, the conditions are not monitored or used as requirements for receiving benefits. Instead, they are intended to encourage households to meet the Government's health and educational targets. Strict monitoring of conditions would have weakened the ability of the program to reach vulnerable children.

The Government of Kenya plans to make the OVC-CT program a permanent feature of the social safety net program in Kenya and is working to improve the coverage of education and health services to allow for monitoring of conditions. The Government aims to cover 100,000 poor households with OVCs by 2012, which would increase the total program to cover approximately 300,000 extremely poor OVCs in the country and 13 percent of all OVCs in the country. In addition to the OVC-CT program, the Government of Kenya is scaling up another cash transfer program, the Vulnerable People's Program (VPP) in 2009. Based on lessons learned from pilot programs the scaled up cash transfer program will be rolled out in June 2010. The pilot programs are being implemented by Oxfam and the World Food Program (WFP) in Nairobi.

Strengthening the overall social protection system. The overriding lesson from current and previous crises is the importance for countries of having a well-functioning system of safety nets in place before a crisis hits, so that mechanisms are in place to offset shocks in bad times, as well as promote growth and development in good times. If social safety nets are not in place, governments are often pressured to respond with sub-optimal policies (e.g. consumer subsidies) which can leave a legacy of lower growth. Investments by countries to scale up and improve the effectiveness of cash transfer programs have the potential to strengthen overall social protection systems to protect the poor and to leave countries better prepared for subsequent downturns. Cash transfer programs have a role to play in the context of a “permanent safety net” that is integral to a country's poverty-reduction strategy (Grosh, et al., 2009; Ravallion 2009).

In some countries, installing cash transfer programs was the priority, but in others, where cash transfers were already significant, other policy reforms – addressing needs such as severe unemployment, were the priority. For example, countries in Central and Southeast Europe deployed multi-pronged strategies to strengthen income support for the unemployed and poor. Romania extended the duration of unemployment benefits. Similarly, Bulgaria increased the amount of unemployment benefits, strengthened labor market measures including wage subsidies and training, as well as measures to improve the effectiveness of its social assistance program. In Latvia, the sharp increase in unemployment led the government to increase the duration of unemployment benefits to a maximum of 9 months. However,

since only half of registered unemployed people are covered by unemployment insurance benefits (because of work tenure requirements), the government also launched a public works program for people who were not covered by unemployment insurance benefits. The PW program pays a stipend of about 80 percent of the net minimum wage and requires participants to engage in labor intensive work identified by municipalities. In general, a systemic approach is needed which complements cash transfers with other safety net programs. Even where the focus is on supporting children, public works programs and benefits for the unemployed are important for supporting household welfare.

Cash transfers, and particularly CCTs have administrative prerequisites which provide countries with more capacity to identify and reach the poor and vulnerable groups (Fiszbein and Schady, 2009). These externalities can contribute to better preparedness during a crisis. Countries with existing programs are more likely to have targeting mechanisms in place to reach the poor, information systems, including beneficiary registries, management information systems, monitoring and evaluation instruments such as household surveys, as well as trained staff. Countries are able to use the targeting mechanisms from cash transfer programs to direct other social programs.

For example, Chile provided two one-off benefit payments to beneficiaries of *Chile Solidario* as well as other programs in 2009 benefiting from the existence of well developed targeting instruments. Other countries in Latin America, including Colombia and Brazil use the targeting instrument for their CCT program to target other benefits, including health insurance in Colombia, and labor market programs in Brazil. Further analysis of the experience of specific countries and programs is needed to draw lessons about how particular design features – such as the choice of targeting mechanisms, or the design of payment and information systems can be most conducive to rapid scaling up.

In addition to administrative capacities, there may be greater political support for cash transfer programs where they already have a demonstrated track record and have been accepted by the population. The 2008-09 crisis has increased pressure on countries to improve the administration of cash transfer programs by reviewing and improving their

targeting methods, investing in program infrastructure such as beneficiary registries and identifying opportunities for improving program management and efficiency.

Focusing donor assistance. Finally, social safety nets require counter-cyclical investments. During the crisis middle income countries which had pursued prudent fiscal policies in times of economic expansion – for example, Chile – had more financing capacity to make these investments and incorporate safety net spending into national stimulus packages. Chile was able to finance its stimulus package with accumulated reserves from copper revenues in an Economic and Social Stabilization Fund. This helped finance a counter cyclical package of public investment, tax cuts for private investments and expanded social safety net benefits for the poor (World Bank, 2010; Velasco, 2009).

Low income countries – where the share of the poor is the largest – were more likely to lack resources for safety nets and needed to rely on donor assistance. However, during the 2008-09 crisis, safety net programs, and particularly cash transfer programs have been an important focus and channel for donor support across countries. Even in middle income countries such as Mexico, Argentina and the Philippines, governments accessed international aid for financing benefits, as well as technical assistance for strengthening programs. During fiscal year 2009, the total World Bank lending for safety nets reached over \$3 billion in 29 countries, seven times the annual average.¹³ The largest share of this lending was in Latin America, which had the greatest number of existing programs that could be scaled up. Agencies including DFID, UNICEF, WFP and others have also been actively engaged in work on safety nets across countries. Again, countries that had existing programs, or plans in place, were able to facilitate donor efforts.

¹³ This figure includes total safety net spending, including all types of programs – not only cash transfers (World Bank, 2010). However, two loans taken by Mexico and Colombia accounted for 70% of the \$ 3 billion overall loan amount.

IV. Conclusion

The experience from past crises and the current downturn confirms that cash transfer programs can be important instruments for providing a rapid injection of income support to vulnerable households with children. Early indications suggest that countries were able to weather the immediate effects of the 2008-09 crisis more effectively than past crises because of the greater prevalence of safety net programs. During the recent crisis, cash transfer programs have become a more central of some countries efforts to provide income support to families with children. Reforms undertaken during the 2008-09 crisis have contributed to strengthening the capacity of cash transfer programs to provide income support to the poor over the longer term.

The discussion in this paper leads to two main messages. First, investments in cash transfer systems can pay off and countries can make productive investments now in systems that will leave them better prepared for the next crisis. Second, cash transfers are only part of the solution. More needs to be done to ensure an effective policy mix that protects the nutritional and educational status of poor children from the effects of shocks. This will involve more rigorous analysis of the effectiveness of cash transfers and other measures. As household data become available, it will be critical to analyze the distributional impact of these policy changes, assess the implications for long-term sustainability of safety nets, and identify lessons for the future.

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Summary Findings

Developing countries have responded to the multiple shocks from the food, fuel and finance crises of 2008-2009 with a mix of responses aimed at both mitigating the immediate impacts of the crises on households (and particularly children), and protecting future investments in human capital. While some countries have introduced new safety net programs, others have modified and/or expanded existing ones. Since many countries have introduced conditional cash transfers (CCTs) in recent years, these programs have been used as an important starting point for a response. This paper aims to describe how conditional cash transfers have been used by different countries to respond to the crises (e.g. by expanding coverage and/or increasing benefit amounts), distill lessons about their effectiveness as crisis-response programs, identify design features that can facilitate their ability to respond to transient poverty shocks, and assess how they can complement other safety net programs.

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